

REBUTTAL TESTIMONY

OF

NEVILLE O. LORICK

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2004-178-E

Q. PLEASE STATE YOUR NAME.

A. Neville O. Lorick

Q. MR. LORICK, HAVE YOU PREVIOUSLY TESTIFIED IN THESE PROCEEDINGS?

A. Yes, I have.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The Company has filed a Motion to Strike certain portions of the testimony of David E. Dismukes, filed on behalf of Columbia Energy, LLC (Columbia Energy), in which Mr. Dismukes raises questions as to matters already resolved by the Commission in prior dockets. However, because of time limitations, the Commission may not have acted on SCE&G's Motion to Strike prior to the Company's deadline for filing Rebuttal Testimony in response Columbia Energy's pre-filed testimony. Therefore, I believe Rebuttal Testimony refuting Mr.Dismukes' assertions also must be filed by myself and all of our rebuttal witnesses, subject to our Motion to Strike.

1 **Q. PLEASE REVIEW THE PROCESS FOLLOWED BY THE COMPANY AND THE**
2 **ISSUES RESOLVED BY THE COMMISSION IN PRIOR DOCKETS**
3 **INVOLVING THE COMPANY’S JASPER FACILITY.**

4 **A.** Pursuant to S. C. Code Ann. §58-33-10, and succeeding sections, in 2001 (Docket No.
5 2001-420-E), the Company filed an Application for a Certificate of Environmental
6 Compatibility and Public Convenience and Necessity to construct and operate an 875
7 MW combined-cycle electrical generating plant in Jasper County. The Application was
8 fully compliant, in all particulars, with the requirements of the statute. The Commission
9 held a hearing on the Application beginning on December 3, 2001. The Consumer
10 Advocate for the State of South Carolina was an intervenor in the Jasper proceeding and
11 presented an expert witness. The Commission Staff also actively participated in those
12 proceedings. Additionally, the Commission heard from seven (7) public witnesses. Of
13 particular note, Columbia Energy did not intervene in this proceeding.

14 In its Application and through its four (4) witnesses, the Company addressed the
15 need for the project; the financial and economic justification of the project; the
16 engineering, procurement and construction requirements of the project; and the
17 environmental considerations involved in the project.

18 On January 11, 2002, the Commission issued its Order No. 2002-19 approving the
19 Jasper project. I ask that the Commission take judicial notice of this Order and
20 particularly call the Commission’s attention to the following findings at pages 11 through
21 13:

22 2. The Company clearly demonstrated the need for the facility
23 consistent with the Company’s 2001 Integrated Resource Plan (IRP). The
24 SC General Assembly has not instituted any form of electric deregulation,
25 and the facility is needed to meet the requirements of the Company to

1 reliably serve native load. Further, an 875 MW facility allows for
2 economies of scale resulting in incremental capacity costs of
3 approximately 60% of the cost of base capacity.
4

5 3. An 875 MW facility is within the demand forecast error bounds of
6 the 2001 IRP and promotes increased reliability within the Company's
7 territory and the Company's required VACAR reserve margin. . . .
8

9 8. Further, we find and conclude that the Company's decision-
10 making process which considered, but rejected purchased power, was
11 adequate and prudent. The Company's knowledge of the electric markets
12 and recent experience in its Urquhart Repowering Project made
13 unnecessary an elaborate RFP process in reaching its final decision.
14 [citations omitted].
15

16 Moreover, the Commission reached the following conclusions at pages 13 and 14:

17 4. SCE&G has established a basis for the need for the facility. The
18 Company has established that a shortfall in the ability of the Company to
19 generate adequate supplies of electricity may well result in the future
20 without the construction of the project
21

22 7. The facility will serve the interests of system reliability and
23 economy. Clearly the project is needed to assure system reliability for
24 needed capacity. Moreover, we concur in the Company's decision to
25 provide this capacity with owned generation. The uncertainty of supply
26 and attendant cost presently associated with purchased power coupled
27 with the economic benefits of owned generation make the Company's
28 decision to build generation a prudent one. . . .
29

30 9. Public convenience and necessity require the construction of the
31 proposed facility. We conclude, based on the testimony of the witnesses
32 and the evidence in this case as a whole that the construction of this
33 facility is necessary in order to generate needed amounts of electricity,
34 overcome the forecasted shortfall, and maintain a proper reserve margin.
35 We believe that without the facility, SCE&G may well face an inability to
36 generate needed amounts of electricity and will not be able to meet the
37 growth and peak demand in the future, much less maintain a proper
38 reserve margin. The project is needed to properly serve the public.
39

40 No party in that proceeding appealed the Commission decision.

41 **Q. PLEASE CONTINUE.**

1 A. While not related to issues in our present case, I would note that in a separate proceeding
2 in Docket 2002-284-E, the Commission approved the siting of proposed transmission
3 lines connecting the Jasper facility to the electric transmission grid.

4 **Q. WAS THE JASPER PROJECT CONSIDERED BY THE COMMISSION IN THE**
5 **COMPANY'S 2002 ELECTRIC RATE CASE?**

6 A. Yes. In our August 6, 2002, Application for Adjustments to Rates and Tariffs, the
7 Company specifically sought recovery in rates for all of the investments it would make in
8 the Jasper facility through December 31, 2002. In approving this request, the
9 Commission specifically addressed a number of the issues which Mr. Dismukes is
10 attempting to re-litigate in these proceedings. As with the Commission's Siting Order, I
11 request that the Commission also take judicial notice of its Order No. 2003-38 in
12 SCE&G's 2002 Rate Case (Docket 2002-223-E).

13 Of particular note in this Order, the Commission stated, beginning at page 30:

14 The witness for the SCEUC, Mr. Phillips, argued in his testimony
15 the additional CWIP related to Jasper should not be included in
16 rates in this proceeding for reasons related to (a) the nature of the
17 plant as a combined-cycle gas plant, (b) the present economic
18 conditions of the nation, (c) the size of the plant, and (d) his
19 assertion that the plant is not used and useful at present. We
20 address each of these arguments in turn.

21
22 The Commission went on to address the sizing of the Plant, the implications of the North
23 Carolina Electric Membership Corporation (NCEMC) contract, and the used and useful
24 nature of the Jasper Plant as follows:

25 The Size of the Jasper Plant – The final point Mr. Phillips raises is
26 his assertion that the Jasper plant is sized larger than currently
27 needed. However, the records shows that even with all CWIP
28 through December 31, 2002, in rates, only 58% of the total cost of
29 the plant will be borne by customers. Moreover, the Commission
30 finds that the plant was properly designed to take advantage of

1 valuable economies of scale in its construction. The record shows
2 that building the third Jasper unit at this time has reduced the cost
3 of the plant by \$111 million, compared to the cost of building two
4 units presently and adding a third later. Moreover, the record
5 shows that the third unit will be needed to serve retail demand in
6 2006 and that the procurement of equipment for it would have had
7 to have begun before the present construction was complete.
8 Finally, the Company has been able to sell 250 MW of system
9 capacity to third parties based on the reserves Jasper will represent
10 when it comes on line. Customers will be credited 100% of the
11 value of this sale.

12
13 Accordingly, the Commission reaffirms its findings in the
14 Jasper siting order that the Jasper Plant is properly sized and that
15 the customers will receive substantial benefits from the decision to
16 build all three units at this time. The Commission does not find
17 that the size of the Jasper Plant provides a justification for not
18 allowing the Company's requested CWIP treatment.

19
20 The Used and Useful Nature of the Plant – Mr. Phillips also
21 suggests that the Company's investment in the Jasper Plant is not
22 used and useful and so should not be included in the rates. Under
23 South Carolina law, property that is prudently acquired for future
24 utility use is properly included in the rate base. In addition, the
25 Commission has consistently held that CWIP related to projects
26 prudently undertaken and managed to provide utility service is
27 indeed used and useful and properly included in rate base. Such is
28 the case with the Jasper Project.

29
30 The issue is well settled in South Carolina that CWIP is
31 properly included in the rate base. The only question here is
32 whether the full amount of the known and measurable investment
33 in the Jasper Project should be included in rates in the proceeding.
34 The Commission finds that sound regulatory policy, existing
35 precedent, and the evidence on the record all supports inclusion of
36 CWIP in the amount of \$276,224,951 in rates subject to Staff
37 audit. . . . [citations omitted].

38
39 In the present case, we now seek to put into base rates the balance of the costs
40 incurred in completing the Jasper Project since December 31, 2002, so that the total cost
41 of the project will be in base rates. In our last rate case the Project was approved by the

Commission and 58% of the project costs (*i.e.* those incurred as of December 31, 2002) were put into base rates.

Q. AT PAGES 43 THROUGH 52 OF HIS TESTIMONY, DR. DISMUKES ADVOCATES A COMPETITIVE BIDDING PROCESS FOR PURCHASED POWER AS A WAY FOR THE COMPANY TO AVOID BUILDING ADDITIONAL PLANT IN THE FUTURE AND CRITICIZES THE COMPANY FOR NOT CONDUCTING AN RFP PROCESS FOR PURCHASED POWER WITH REGARD TO ITS JASPER PROJECT. WILL YOU PLEASE RESPOND TO THESE ASSERTIONS?

A. Yes I will. First, let me say again that the Commission specifically addressed these questions in the Jasper Siting Docket. The Commission's findings and conclusions on these issues have already been identified in this Rebuttal Testimony.

SCE&G is not opposed to using of an RFP process for purchased power when that process is consistent with the overall needs of the Company and is necessary to insure that the Company has information, not otherwise available, needed to make sound business decisions. As the Commission noted in its Jasper Siting Order, we employed an extensive RFP process as a part of our planning regarding our Urquhart Repowering Project.

Competitive bidding for electric power supply is not required, and has not been common, in South Carolina. SCE&G solicited the market in 1998 when most wholesale market players were considered financially stable. Even during that high point of merchant power, SCE&G was dubious of the economic benefit of entering into long-term power supply contracts with highly-leveraged companies. SCE&G's concern over the

1 financial stability of such companies was well-founded. Independent power producers
2 (IPPs) such as Columbia Energy, at the time of their investments, believed that
3 opportunities to sell power on the open wholesale market were decidedly better than
4 selling to utilities through purchase power agreements. That market strategy, adopted by
5 Columbia Energy and others, has proved to be wrong. Independent power producers, like
6 Columbia Energy's parent company Calpine Corp. (Calpine), have built more power
7 plants than the wholesale market can support and, therefore, are experiencing serious
8 financial difficulties. They desperately need power purchase agreements with utilities for
9 their financial survival. Since 1999, the merchant energy sector has witnessed
10 unparalleled equity impairments, ratings downgrades, and several of the largest
11 bankruptcies in U.S. history. On October 14, 2004, Calpine's Common Stock closed at
12 \$2.32 per share, down from a high of over \$55 per share in the Spring of 2001. Calpine's
13 senior unsecured debt is rated CCC-plus by Standard & Poor's and Caa 1 by Moody's
14 Investors Service – significantly below junk bond status.

15 Even when using an RFP process, we cannot simply accept the lowest priced
16 proposal. Reliability, time constraints on calling power, and the financial stability of the
17 provider, are only a few of the considerations related to purchased power. Indeed, if we
18 had selected the lowest bid in response to our RFP preceeding the Urquhart Repowering
19 Project, we would have entered into a purchase power agreement with Enron
20 Corporation. Today, we would not have the capacity provided by the Urquhart
21 Repowering Project; we would have a breach of contract action against an essentially
22 defunct company; and we would be buying power to replace that which Urquhart would
23 have provided.

1 A utility must make reasonable, prudent, and sound business decisions and must
2 demonstrate these elements of our decision making process to the Commission. The
3 Commission should not impose any single decision making process or requirement on the
4 Company, but should allow the Company to make its business decisions subject to
5 Commission review.

6 **Q. DO YOU HAVE AN OPINION AS TO WHY COLUMBIA ENERGY IS NOW**
7 **TRYING TO RE-LITIGATE MATTERS ALREADY DECIDED BY THE**
8 **COMMISSION?**

9 **A.** I do. Columbia Energy's independent power generation project in SCE&G's service
10 territory is a co-generation project with one of SCE&G's largest customers, Carolina
11 Eastman Company (now Voridian). At the outset, Columbia Energy made it abundantly
12 clear that they were not interested in any commitment to sell power to SCE&G, based on
13 the market strategy I have just discussed. Consequently, Columbia Energy entered into a
14 written agreement with SCE&G waiving its Public Utility Regulatory Policy Act
15 (PURPA) rights to put the Qualifying Facility (QF) power to SCE&G, and
16 correspondingly, SCE&G agreed not to oppose the siting of the Columbia Energy facility
17 by the PSC.

18 Again, for the reasons I discussed in my answer to the previous question,
19 Columbia Energy has now indicated its intent to breach its agreement with SCE&G and
20 has attempted to force a power purchase agreement with the Company. Columbia Energy
21 made it clear that, if the Company declined to enter into such an agreement, it would
22 retaliate by intervening in the present proceeding. They have also intervened in Docket
23 No. 2004-126-E, involving our gas supply contract for the Jasper facility. Columbia

1 Energy has told our Company that if SCE&G would agree to purchase 200-300 MW of
2 power for approximately four to six years, Columbia Energy would drop its intervention
3 in this rate case and possibly our Jasper Fuel Contract case.

4 Furthermore, as the Commission is well aware from all of the discovery issues
5 presented to it, Columbia Energy has used its interventions to attempt to obtain
6 commercially sensitive, proprietary information from the Company. To date, the
7 Commission has ruled against these intrusions.

8 **Q. IN ITS TESTIMONY AND IN ITS DISCOVERY REQUESTS, COLUMBIA**
9 **ENERGY INFERS THAT THE NCEMC SALES ARE UNIT SALES FROM**
10 **JASPER AND NOT SYSTEM SALES AS THE COMPANY HAS ASSERTED.**
11 **WHAT IS THE NATURE OF THESE SALES?**

12 **A.** The NCEMC sales are system sales, and we have always treated them as such. We began
13 to deliver power pursuant to these contracts in January of this year. Jasper did not
14 become commercially operational until May, 2004. Moreover, we provide power to
15 NCEMC under the contracts whether or not Jasper is generating under our system of
16 dispatch at any particular time.

17 Further, SCE&G energy cost accounting ensures that our native load benefits from the
18 lowest cost resources each hour. After the fact, SCE&G rank orders all its generation
19 supplies in each hour, and the cheapest energy sources are always ascribed to native load
20 customers. This accounting is reviewed periodically by PSC staff auditors to ensure
21 accuracy and fairness. The energy pricing formulas in this NCEMC contract are designed
22 to recover SCE&G's variable cost to supply, but they do not allow NCEMC to benefit

1 from SCE&G's diverse fuel mix at the expense of SCE&G's native load. Therefore,
2 NCEMC does not benefit from SCE&G's diverse fuel mix.

3 Finally, I would remind the parties in this case that there is no financial incentive to our
4 shareholders for the Company to pursue off-system sales of its generation. Unlike many
5 jurisdictions, in South Carolina the profits from such off-system sales must be used to
6 directly benefit our customers, not our shareholders.

7 **Q. FOR WHAT PURPOSE WAS THE JASPER PLANT BUILT?**

8 **A.** It was built for our native load customers. As the Commission held in our siting docket,
9 and confirmed in our last rate case, Jasper was and is necessary to maintain our reserve
10 margins and insure service to our native load. In addition to the economies of scale
11 achieved in the sizing of the plant, the sale to NCEMC, as the Commission has also held,
12 mitigates costs to our customers.

13 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

14 **A.** Yes it does.